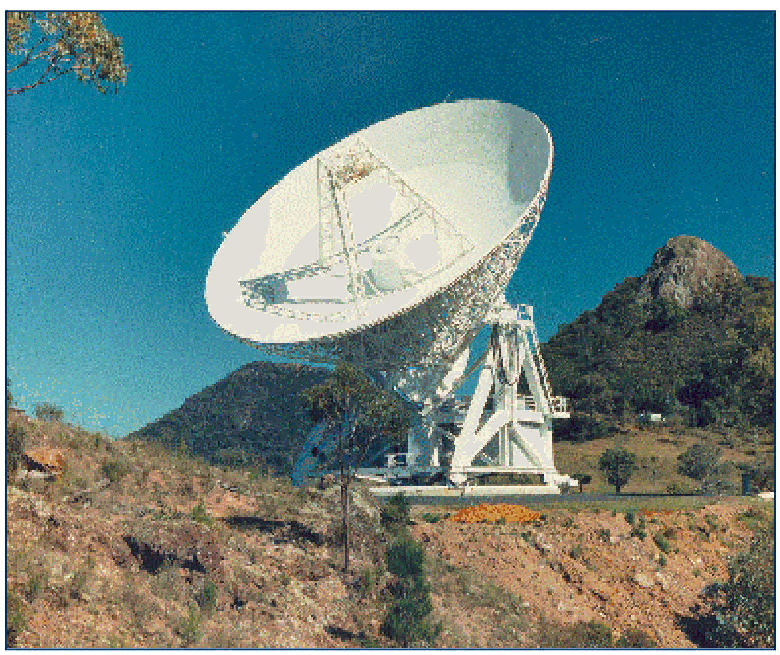
Internal Audit Report

Telecommunications Department
October 2001



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October 19, 2001

Janice K. Brewer, Chairman, Board of Supervisors
Fulton Brock, Supervisor, District I
Don Stapley, Supervisor, District II
Andrew Kunasek, Supervisor, District III
Mary Rose Wilcox, Supervisor, District V

We have completed our FY 2002 review of the Maricopa County Telecommunications Department (Telecommunications). This audit was conducted in accordance with the Board approved audit plan. Our review focused primarily on the department's controls over intergovernmental agreements, cable television licenses, revenues, and information systems.

Overall, we found Telecommunications to be managed effectively. We also found areas needing improvement. These, along with our recommendations, are detailed in the attached report. The highlights are:

- Six intergovernmental agreements and leases administered by Telecommunications lack sufficient supporting documentation to verify the department's compliance with statute and County policy requirements. These control weaknesses expose the County to legal and financial risk.
- Telecommunications has not established adequate controls over IGA and service contract billings and cable television license payments. Our review found approximately $53,500 of unbilled charges that are due the County.
- Written change control procedures have not been developed for either the Data Network or Microwave & Radio areas, increasing the risk that unauthorized changes will be made.

We have attached our report package and Telecommunications' response, which we have reviewed with the department's director and managers. We appreciate their excellent cooperation. If you have questions or wish to discuss items presented in this report, please contact George Miller at 506-1586.

Sincerely,

Ross L. Tate

Ross L. Tate
County Auditor

Table of Contents

Executive Summary

Intergovernmental Agreements
Page 6

Six intergovernmental agreements (IGA) and leases administered by Telecommunications lack sufficient supporting documentation to verify the department's compliance with State law and County policy requirements. These control weaknesses expose the County to legal and financial risk. Telecommunications should strengthen its administrative controls over IGAs and leases.

Cable Television Licenses
Page 8

Cable television operators have not provided Telecommunications with some updated documentation that is required by the license agreements. Without current certificates, records, and reports the County is exposed to legal and financial risk. Telecommunications should obtain all required documentation from its licensed cable television operators.

Departmental Revenues
Page 10

Telecommunications has not established adequate controls over IGA and service contract billings and cable television license payments. Our review of these revenues found approximately $53,500 of unbilled charges that are due the County. Telecommunications should strengthen controls over these activities.

System Change Control
Page 13

Written change control procedures have not been developed for either the Data Network or Microwave & Radio areas, increasing the risk that unauthorized changes will be made. Changes that have not been adequately tested could reduce system reliability and user service levels. Telecommunications should improve and formalize change control procedures.

Contingency Planning
Page 14

Telecommunications has not developed a formal documented disaster recovery plan. As a result, the department does not have assurance that its network can be recovered in a timely manner and, therefore, may experience business interruption. Telecommunications should establish a formal disaster recovery plan that provides for the recovery of critical processing capabilities.

Introduction

Background

The Maricopa County Telecommunications Department (Telecommunications) was established July 1, 1985 by the Board of Supervisors (Board). Today the department manages the following County operations:

- Radio and microwave systems including voice, data, and wireless communications
- Cable Communications
- Network Operations Center.

Telecommunications is authorized 40 positions for fiscal year (FY) 2002. Employees are assigned to four operating divisions: Administration/Projects, Voice Systems, Data Communications, and Wireless.

Telecommunications compiles County departments' telecommunications equipment usage charges and bills users on a monthly basis. Each department is provided a detailed listing (by extension) of their long distance, cell phone, and fax machine charges. Telecommunications conducts audits of selected departments' long distance telecommunications equipment usage charges.

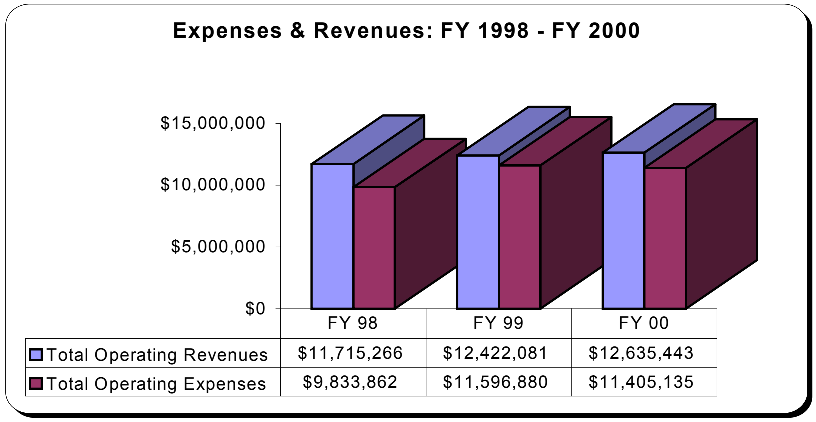
Mission and Goals

Telecommunication's mission is to provide a communications infrastructure that will transport voice, data, video and wireless information at a competitive cost using the most reliable technologies. The department has developed strategic goals to support this mission.

Expenses and Revenues

Telecommunications FY 2002 operating budget is 12 million dollars. The graph on the following page shows the department's revenues and expenditures for the last three fiscal years.

The department's revenues have exceeded expenditures during the last three fiscal years, increasing the fund balance by $1.8 million. As a result, Telecommunications will reduce internal service fund (ISF) user charges by approximately $1 million during FY 2002.



Telecommunications administers five cable television licenses and approximately 25 County Intergovernmental Agreements (IGA). Cable television licenses generate revenue for the General Fund that is separate from the Telecommunications revenues (ISF charges and IGA revenues) shown in the above graph. During FY 2002 the County should realize more than $700,000 from cable television licenses.

Scope and Methodology

Our audit objectives were to determine if:

- Telecommunications executes IGAs and contracts in compliance with Arizona Revised Statutes (ARS) and Maricopa County Procurement Code requirements
- County cable television operators are meeting all significant requirements of the Franchise Agreement and Cable Communications Ordinance
- Telecommunications adequately records cable license payments, reconciles the quarterly payments to licensees' annual gross revenues, and collects all revenues due
- Telecommunications adequately tracks IGA revenues to ensure that all receivables are accurately reported
- Recommendations from Internal Audit's 1997 Telecommunications review remain outstanding

This audit was performed in accordance with Government Auditing Standards.

Department Reported Accomplishments

The Telecommunications Department provided the Internal Audit Department the following information for inclusion in this report.

Telecommunications Accomplishments
During Past 12 months

- Completed IGA with City of Scottsdale allowing department to support 1,300 city mobile and portable radios on County's 800 Mhz Smartzone system. Agreement will generate nearly $400K of revenue for County.
- Managed calling plans for all County cell phones; automated system resulted in lower average monthly costs, from $68/phone to $43/phone.
- Improved tracking credits owed to County by Qwest due to service outages. Making Qwest accountable for outages improves services.
- Built centrally managed wide remote access system for County teleworkers and mobile workers that supports over 1,400 user accounts.
- Conducted monthly audits of County departments to ensure compliance with County's telecommunications equipment usage policies.
- Developed network security services which has reduced hacker attacks by closing doors on internet connected servers within the County.
- Made audio/visual improvements in Board conference room including flat screen monitors, better lighting, new speaker system, and overhead projectors.
- Implemented services and hardware to ensure that County Internet service is available nearly 100% of time to citizens and employees.
- Upgraded bandwidth (intra and inter buildings) on ATM network so that higher speed technologies may be deployed. This required removing 340 10 meg hubs and replacing these with 10 meg switches; a huge effort that has gone nearly seamlessly. Also upgraded the backbone speed within County's three complexes to gigabit speed. Department has also upgraded bandwidth between County complexes to 30 megabit per second between downtown center and Durango and downtown center and Mesa.

Issue 1 Intergovernmental Agreements

Summary

Six intergovernmental agreements (IGA) and leases administered by Telecommunications lack sufficient supporting documentation to verify the department's compliance with State law and County policy requirements. These control weaknesses expose the County to legal and financial risk. Telecommunications should strengthen its administrative controls over IGAs and leases.

ARS and County Policy Requirements

ARS 11-952 authorizes governmental agencies to contract with one another for services and joint or cooperative actions. IGAs must be written, reviewed by the County Attorney, approved by the Board, and signed by the Board Chairman. The agreements must specify duration, purpose, financing, and termination methods. Any payment for services shall not be made unless pursuant to a fully approved written contract.

IGAs also must be filed with the State Secretary or County Recorder. County policy requires the Clerk of the Board to file all executed agreements with the Recorder's Office.

Review Results

Telecommunications administers approximately 25 County IGAs, leases, and service contracts with other public agencies. We examined eleven of the agreements to determine the department's compliance with ARS and County policy requirements. We found the documentation supporting six agreements to be incomplete, resulting in exceptions to ARS and County policy requirements. These include:

- US Drug Enforcement Agency (DEA): An IGA authorizes DEA to use space at Thompson Peak but does not include a Mt. Ord site, for which DEA is also being charged. We could not find any agreement or amendment to the Thompson Peak IGA authorizing Mt. Ord. We also could not find an amendment authorizing a rate increase from $75 to $170.
- Immigration and Naturalization Service (INS): An original lease agreement could not be found. However, an amendment to the agreement shows that the lease expired in September 2000.
- City of Phoenix Public Transportation: Telecommunications records show that the department made a verbal agreement to trade assets in lieu of payment. No other supporting documentation was found on file.

- Arizona Public Service (APS): An agreement authorizes APS access to a Salt River Project (SRP) building that is located on a County site. The letter, signed by the Telecommunications Director and an APS Communications Manager, references a County IGA with SRP and requires APS to abide by that agreement. However, the agreement with APS was not reviewed by the County Attorney or approved by the Board.
- Sun City West Posse: An IGA has not been approved by the Board even though Telecommunications receives payments pursuant to the agreement.
- Lease agreements with APS, DEA, INS, and US Postal Service: We could not find any documentation showing that the County Attorney had reviewed these agreements, as required by ARS 11-952.

Negative Impact

Telecommunications has not developed an effective system for managing IGAs and monitoring the agreements on a regular basis. If the department does not adequately perform these activities, the County is exposed to:

- Legal liability incurred if someone from a non-County agency has an accident at a County site
- Financial liability (e.g., an agency's failure to make required payments).

Recommendation

Telecommunications should:

A. Secure all of the missing documentation and authorizations for the IGAs and leases administered by the department

B. Monitor all of the agreements to ensure compliance with the requirements of ARS, County policy, and contract financial provisions.

Issue 2 Cable Television Licenses

Summary

Cable television operators have not provided Telecommunications with some updated documentation that is required by the license agreements. Without current certificates, records, and reports the County is exposed to legal and financial risk. Telecommunications should obtain all required documentation from its licensed cable television operators.

Applicable Requirements

The Maricopa County Cable Communications Ordinance establishes requirements for the County and its cable television license holders. These include:

- Agreements must be approved by the Board, signed by the Board Chairman, and can not exceed 15 years in duration
- Licensees must provide the County with a $25,000 letter of credit and proof of insurance up to a specified limit
- Licensees must submit quarterly revenue statements, quarterly license fee payments, and annual audited revenue statements that are prepared in a consistent format
- Licensees must maintain complete records of service complaints received and actions taken for one year, as well as, submit an annual activity report of services added/dropped, subscribers gained/lost, and complaint summaries.

Examination of Cable License Files

The County currently has five authorized Cable Franchise Agreements. Our review of Telecommunications' record files found the following:

- All agreements were approved and signed by the Board.
- Two companies' letters of credit and one company's insurance policy had expired.
- One company's file contains little documentation other than the license agreement.
- Only one license file contained information regarding the number of customer complaints received.
- The cable operators' annual reports on file are primarily financial and do not contain operational information except the number of subscribers.
- One company had changed its name and another acquired two other cable companies. No documentation could be found to support these actions.

Causes of Exceptions and Associated Risks

Telecommunications does not adequately maintain its cable operator files for Cable Ordinance documentation and reporting requirements. When cable operators do not provide the County with required letters of credit, proof of insurance, or updated records the County may be exposed to:

- Legal liability resulting from a cable television operator's illegal activity or negligence
- Financial risk (e.g., cable television operators' failure to make license fee payments).

Without audited financial statements, the County has no assurance that cable operators have remitted all license fee payments due.

Recommendation

Telecommunications should:

A. Update its cable operator files to include all the documentation required by the Maricopa County Cable Ordinance

B. Obtain all necessary records, reports, and other documentation from the cable operators.

Issue 3 Departmental Revenues

Summary

Telecommunications has not established adequate controls over IGA and service contract billings and cable television license payments. Our review of these revenues found approximately $53,500 of unbilled charges that are due the County. Telecommunications should strengthen controls over these activities.

Agreement Requirements

Telecommunications administers approximately 25 County IGAs and service contracts. Several IGAs require the department to invoice agencies on a monthly basis. Other agreements require agencies to make monthly payments directly to Telecommunications without being invoiced. Telecommunications is responsible for monitoring all receipts, which are used to help fund the department's operations.

Maricopa County's Cable Communications Ordinance requires cable television operators to make quarterly license fee payments. Those not received by the County within thirty days of the due date are delinquent and subject to a 5 percent late fee plus 1.5 percent per month interest. Cable television operators must also submit an annual statement of gross revenues, which is either audited or certified as accurate by an officer of the company. Cable television license fees are deposited into the General Fund.

The Board approved an agreement in June 1997 authorizing Cox Communications to deduct $269,000, over sixteen calendar quarters, from its cable license fee payments. This was the agreed upon method for the County to reimburse Cox Communications for overpayments made between July 1990 and June 1994. The overpayments were identified by the City of Mesa, acting on behalf of the County, during a 1997 tax audit.

Uncollected Revenues

We reviewed the revenue requirements from fifteen IGAs and contracts administered by Telecommunications. Five of the agreements do not have such requirements or currently do not generate any revenue. Using the ten other agreements, we tested revenue payments against the payment provisions. We identified approximately $35,000 of revenue due from six agencies as far back as 1997 that Telecommunications has not collected.

The uncollected revenues indicate that Telecommunications does not adequately monitor its IGAs and service contracts to identify all revenues due. The department's manual tracking logs are ineffective.

Cable Television License Fee Payments

Our review of Telecommunications cable franchise records and revenue files from FY 1998 through FY 2001 show the following results:

- The County's five contracted cable companies submitted gross revenue statements with their franchise fee payments, as required.
- One company sporadically submitted semi-annual instead of quarterly payments. Between October 1997 and December 2000, six quarterly payments were late and Telecommunications assessed no penalty or interest charges ($9,927).
- One company deducted five percent from its gross revenues before calculating the County license fee payment. These deductions totaled $7,962 during 1997, 1998, and 2000. The license does not specifically define gross revenues and the company does not explain its deductions. NOTE: Telecommunications reports that the deduction represents the company's pass-through charge to its cable customers. However, we found no documentation showing that an amendment, or authorization to make this deduction, had been established.
- One company submitted its April – June 2000 payment late and Telecommunications did not assess a penalty ($583).
- Deductions do not appear to have been made from Cox Communications payments for the first three quarters of 1998 and, possibly, the third quarter of 2000. The County still may owe the company $71,252.
- Telecommunications is unable to reconcile cable companies' reported quarterly revenues to annual revenues because the annual reports do not show all revenues attributed to only its Maricopa County license.
- Since 1997 Telecom has not utilized any cities' cable license tax audits to determine the accuracy of the license fee revenues remitted to the County.
- Telecommunications does not adequately enforce the license agreement requirement that cable operators report gross revenues attributed specifically to Maricopa County customers. The department also does not levy appropriate late fees or verify gross revenue deductions. These control weaknesses subject the County to financial loss.

Recommendation

Telecommunications should:

A. Contact IGA and service contract agencies and attempt to collect revenues not previously remitted

B. Establish an effective invoice and receipt monitoring system that includes detailed payment logs identifying IGA/contracts, amount due, billing periods, payment receipts, and postings

C. Recover applicable late payment fees and interest penalties from cable television operators and, in the future, assess appropriate late fees

D. Require cable operators to submit annual gross revenues for their Maricopa County operations

E. Consider resuming its practice of contracting with local cities to audit County cable operators' revenues and financial systems.

F. Verify what is owed to Cox Communications and settle the obligation

Issue 4 System Change Control

Summary

Written change control procedures have not been developed for either the Data Network or Microwave & Radio areas, increasing the risk that unauthorized changes will be made. Changes that have not been adequately tested could reduce system reliability and user service levels. Telecommunications should improve and formalize change control procedures.

IT Best Practices

The risk of system instability and disruptions of services increases when changes are made to system level hardware and software. This risk can be mitigated by implementing control procedures that address authorization, testing, fall-back plan, and communicating critical hardware and software modifications in the Telecommunications area.

Review Results

Change control procedures for the LAN/WAN and Microwave & 800Mhz Radio systems were found to be informal, undocumented, and incomplete. These control weaknesses increase the risk that unauthorized changes are made. Changes that have not been adequately tested could reduce system reliability and user service levels. If changes do result in problems, the reaction time for problem determination and corrective action is increased due to lack of change control communication and documentation.

Hardware and system software modifications are viewed as too infrequent and minor in the Microwave and 800 Mhz Radio area to require formal change control procedures. Informal procedures require schedule changes be made during light usage times to minimize impact.

The Data Network follows informal practices when a change impacts user access to the Internet, but views the group as small enough that everyone in the group knows what is being worked on and a change request approval process is not necessary.

Recommendation

Telecommunications should:

A. Improve and formalize change control procedures for significant hardware and software modifications to LAN/WAN systems.

B. Develop and formalize change control procedures for system hardware and software modifications to the Microwave and 800 Mhz Radio systems.

Issue 5 Contingency Planning

Summary

Telecommunications has not developed a formal documented disaster recovery plan. As a result, the department does not have assurance that its network can be recovered in a timely manner and, therefore, may experience business interruption. Telecommunications should establish a formal disaster recovery plan (DRP) which provides for the recovery of critical processing capabilities.

Applicable Requirements

IT best practices suggest that an organization should have a formal disaster recovery plan that provides for the recovery of critical processing capabilities within a reasonable period of time.

Telecommunications prepared a business contingency plan as part of the Y2K process. However, the department could not locate documentation supporting the disaster recovery/contingency plan. If a data center disaster were to occur, the critical processing capabilities of the organization might be unavailable for an extended period of time causing business interruption.

Recommendation

Telecommunications should:

A. Establish a formal DRP that provides for the recovery of critical processing capabilities

B. Maintain the DRP off-site

C. Test the DRP at least annually for effectiveness and to ensure that the plan is kept current.

Audit Response/Action Plan

Submitted by Telecommunications

September 27, 2001

Approved by:

Linden Thatcher, Chief Information Officer

9/28/01

David Smith, Chief Administrative Officer

Recommendation 1: IGAs: Telecom should secure all of the missing documentation and authorizations for the IGAs and leases administered by us.

Response: Concur – will obtain missing documentation and authorizations by Mar 2002 (some of the open items are typically held up by the other municipalities' legal departments or approving authorities).

Responsible Manager: Chuck Brotherton

Target: Mar 31, 2002

Benefits/Costs: Will be compliant with County policies and ARS 11-952.

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Recommendation 2: IGAs: Monitor all agreements to ensure compliance with the requirements of ARS, County policy and contact financial provisions.

Response: Concur – will review all IGAs (approximately 25) to determine if there are any other non-compliant issues with these.

Responsible Manager: Chuck Brotherton

Target: Mar 31, 2002

Benefits/Costs: Will be compliant with County policies and ARS 11-952.

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Recommendation 3: Cable TV licenses: Update cable operator files to include all documentation required by Maricopa County Cable Ordinance.

Response: Concur – will review all 5 cable franchise licenses to determine if there are any other non-compliant issues with these.

Responsible Managers: Chuck Brotherton and Steve Bartlett

Target: Dec 31, 2001

Benefits/Costs: Will be compliant with County's Cable Communications Ordinance.

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Recommendation 4: Cable TV : Obtain all necessary records, reports and other documentation from the cable operators.

Response: Concur – in process.

Responsible Manager: Chuck Brotherton and Steve Bartlett

Target: Dec 31, 2001

Benefits/Costs: Compliance with County's Cable Communications Ordinance.
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Recommendation 5: Departmental Revenues: Contact IGA and service contract agencies and attempt to collect revenues not previously remitted.

Response: Concur – in process; researching this issue. We are going back through the Treasurer's records of deposits and are attempting to reconcile this with old invoices to the municipalities with which we have IGAs.

Target: Dec 31, 2001

Benefits/Costs: Ensure County receives all revenue due, and improve our record keeping for the future.

Response: For Robson Cable - do not concur – Telecommunications initiated a meeting with Robson Communities cable on 9/17/01. Present at this meeting were Terry Eckhardt (County Attorney), Nancy Bozich (Telecommunications), Steve Bartlett (Telecommunications), Tom Crosby (Telecommunications), and Karri Kelly (Robson Communities Cable). The following was discussed:

1. Robson does not make their quarterly franchise payments ontime. Internal Audit discovered that Robson should have been assessed late fees and penalties that would have amounted to $9.927 since 1997. Through an oversight in Telecommunications and a misunderstanding of our Cable franchise agreement, Robson was not billed for penalties.   Karri Kelly identified how she has fixed this internal problem. Telecommunications will closely monitor the remittance of payments in the future, and will automatically send notification when they are late, and will automatically bill Robson for any late fee and interest payment. Nancy Bozich and Steve Bartlett have accepted responsibility for this.

2. **Robson had begun to deduct 5% from their gross revenues before calculating the 5% franchise fee they owe Maricopa County quarterly. This raised concerns within Internal Audit about the propriety of this practice**. Robson explained that they hired a consultant in 1997 who advised them that this was appropriate and fully compliant with the Cable Communications Policy of 1992 (an ammendment to the 1984 FCC Cable Communications Policy). This 1992 act allows cable carriers to pass through the franchise fees they pay to municipalities to their consumers. Robson will be amending their customer invoices in 2002 and will reflect this amount (5%) as a 'pass through' to Maricopa County. ***As part of Telecom's research during the past few days, we believe***

Robson overpaid maricopa County approximately $5,238.98 (because of inconsistencies with their manual process of deducting the 5% from their 'gross revenues' before calculating our franchise fee).

Summary and Recommendation: When netting the $9,927 in penalties and interest accrued as a result of late payments with the $5,239 Robson overpaid Maricopa County, there is $4,688 outstanding. I believe the manhours both County and Robson personnel (attornies and management on both sides) would spend on resolving this issue (considering it dates back 3 years) would far outweigh the benefit (or money) maricopa County would realize from pursuing this issue with Robson. Additionally, Robson Cable is a very small company which only services a very small community of cable users - this surprise invoice for late fees and interest could be a finacial hardship on them. I recommend we, Telecommunications, doggedly oversee future payments with them and put these past issues to rest.

Response: For Eagle West – Concur – Telecom has computed the late fees and interest for the late payment Eagle West made to the County in 2000 – it amounts to $794.10. We will initiate an invoice to them for this amount.

Responsible Manager: Steve Bartlett

Target: (for Eagle West) Oct 15, 2001

Benefits/Costs: Will bring us current on franchise fees owed to the County.

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Recommendation 6: Departmental Revenue: Telecom should establish an effective invoice and receipt monitoring system that includes detailed payment logs identifying IGA/contracts, amount due, billing periods, payment receipts, and postings.

Response: Concur – in process.

Responsible Manager: Chuck Brotherton (for IGAs) and Steve Bartlett (for cable franchise agreements)

Target: Dec 31, 2001

Benefits/Costs: Will be compliant with County policies and ARS 11-952.

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Recommendation 7: Departmental Revenue: Recover appropriate late payment fees and interest penalties from cable TV operators and, in the future, assess appropriate late fees.

Response: Concur – in part. As stated above, in response to Recommendations 5, we will invoice Eagle West for $794.10 for late fees and interest resulting from a late payment made in 2000. Further, from this point forward, Telecom will assess late penalties and interest for all late payments.

Responsible Manager: Steve Bartlett

Target: ongoing

Benefits/Costs: Will be compliant with County policies and ARS 11-952.

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Recommendation 8: Departmental Revenue: Require cable operators to submit annual gross revenues for their Maricopa County operations.

Response: Concur – will pursue.

Responsible Manager: Steve Bartlett

Target: Dec 31, 2001 (to bring us current), and then ongoing

Benefits/Costs: Will be compliant with County policies and ARS 11-952.

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Recommendation 9: Departmental Revenue: Consider resuming practice of contracting with local cities to audit County cable operators' revenues and financial system.

Response: Concur – will contact the cities of Mesa and Phoenix to assess if this is possible and beneficial.

Responsible Manager: Steve Bartlett

Target: Dec 31, 2001

Benefits/Costs: Will be potentially result in more accurate payments by the cable operators.

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Recommendation 10: Departmental Revenue: Verify what is owed to Cox and settle the obligation.

Response: Concur

Responsible Manager: Steve Bartlett

Target: Jan 31, 2002

Benefits/Costs: Will remove any doubt of a potential county financial obligation.
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Recommendation 11: Change Control: Improve and formalize change control procedures for significant hardware and software modifications to LAN/WAS systems.

Response: Concur – we have had an effective, but *undocumented* system for change control. Telecom managers will formally document their process for significant system changes.

Responsible Manager: Tom Crosby, Chris Baldwin, Cary Parker

Target: Dec 31, 2001

Benefits/Costs: A documented procedure will help in the event that management are not present to assure required steps are taken when significant system changes are made.

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Recommendation 12: Change Control: Develop and formalize change control procedures for system hardware and software modifications to the Microwave and 800 Mhz systems. r

Response: Concur – we have had an effective, but *undocumented* system for change control. We will document this.

Responsible Manager: Chuck Brotherton

Target: Dec 31, 2001

Benefits/Costs: A documented procedure will help in the event that management are not present to assure required steps are taken when significant system changes are made.

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Recommendation 13: DRP: Establish a formal DRP plan that provides for the recovery of critical processing capabilities..

Response: Concur – in process. Much of this was captured during our planning for ‘Y2K’ – this will be updated and flushed out. We received significant direction on the scope of this during a recent meeting with Internal Audit..

Responsible Manager: Chuck Brotherton, Tom Crosby, Chris Baldwin, Cary Parker

Target: Feb 28, 2002

Benefits/Costs: A well documented DRP will help in the event that management are not present to assure required steps are taken if a major disaster were to impact our network.

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Recommendation 14: DRP: Maintain the DRP offsite.

Response: Concur

Responsible Manager: Chuck Brotherton, Tom Crosby, Chris Baldwin, Cary Parker

Target: Feb 28, 2002

Benefits/Costs: Will be accessable if a disaster occurs.

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Recommendation 15: DRP: Test this annually for effectiveness and to ensure that the plan in dept current.

Response: Concur

Responsible Manager: Chuck Brotherton, Tom Crosby, Chris Baldwin, Cary Parker

Target: Dec 31, 2002

Benefits/Costs: Will ensure that all is accounted for.